

Indonesia Project
C/59-5

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(Published in the Sydney Morning
Herald Financial Supplement for
1958)

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Massachusetts Institute of Technology
February 1959**

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During 1958 economic conditions in Indonesia reached their lowest ebb since the collapse of the Korean War boom early in 1952. The major contributing factor was the abortive revolution in the outer islands against left-wing tendencies, corruption, and ineffective economic policy in Djakarta. Other factors were the continuing fall in prices of major exports and the disruption of banking and transport through the Government's assumption of control over certain Dutch enterprises and the departure of thousands of Dutch managers and technicians. Together these developments brought increased budget expenditures, reduced tax revenues, diminished foreign exchange earnings, delays in the development program, and general deterioration.

The impact of the revolution is clear enough from the figures. When he first assumed office in the middle of 1957 Finance Minister Sutikno Slamet hoped to keep the 1958 budget deficit down to Rp. 1.5 billion. By the time the year began the estimate was already up to Rp. 3.5 billion, and at time of writing it appeared that it would exceed Rp. 9 billion before the year was out. The growth of the deficit can be explained partly from the revenue side; the head tax on foreigners has been disappointing as to yield and the rebellion led to some loss of revenues. The main factor, however, has been the cost of fighting the rebellion. Prime Minister Djuanda has estimated the total cost of the insurrection, including loss of output as well as increased military expenditures, as more than Rp. 3.5 billion.

As a consequence of the swelling deficit the note circulation increased by nearly 50 per cent between mid-1957 and mid-1958, and continued to soar thereafter. The inflation which had long been endemic became epidemic. By the middle of 1958 the cost-of-living was rising by 3 to 4 per cent per month.

Inflationary tendencies were aggravated by reduced domestic production and by further cuts in imports, which were in turn necessitated by the loss of foreign exchange earnings. Rice imports, despite the concentrated effort to achieve self-sufficiency in rice, will exceed 700,000 tons or 10 per cent of total requirements. Rice imports alone cost Indonesia \$75 million annually. Estate production has held up remarkably well (see Table) but smallholders' rubber, which has become more important than estate rubber since independence, fell far below the 1957 level. Moreover the losses through the barter trade, which even in 1957 cost the government some \$100 million in foreign exchange (\$60 million on Central Sumatra exports alone) were higher still in 1958. Exports of smallholders' products in general were Rp. 687 million in the first half of 1958 as compared to Rp. 1,711 million for the same period of 1957. By the end of September the Bank of Indonesia reserves were down to 7.0 per cent of the note circulation, as compared to the former legal ratio of 20 per cent. Imports of luxuries were cut out altogether, and imports of semi-luxuries and even some necessities were drastically curtailed.

Thus 1958 will go down as a black year in the economic history of the infant Indonesian republic. Yet it may also become known as the year

of the turning point. For while the rebellion had unfavorable effects on the Indonesian economy in 1958, it was itself the result of unsatisfactory economic conditions in large measure. Ever since Indonesia won her Independence at the end of 1949 the performance of her economy has disappointed both her foreign wellwishers and the Indonesians themselves. Most Indonesians thought that "Merdeka" would bring prosperity automatically; when it didn't, they blamed the central government, or foreigners, and blamed Djakarta for the continued foreign hold on the economy. Disappointment and dissatisfaction were particularly keen in the outer islands, where most of the big plantations, mines, oil fields and refineries are located. With their abundant resources and relatively low populations, the people in the outer islands thought they could get along very well if it were not for blunders, dishonesty, and political manoeuvring in Djakarta. In February of 1958 the pent-up disgruntlement burst out in the form of a revolutionary government with headquarters in Central Sumatra, headed by the former Governor of the Bank of Indonesia, Sjafrudin Prawiranegara.

Indonesian leaders recognize that the military defeat of the rebels does not solve the problems which gave rise to the revolt. After years of neglecting economic development for power politics, the Indonesian leadership has been forced by the rebellion to put economic stabilization and development at the top of the agenda. While the insurrection was the dominant event of the year, the Indonesian economic situation in 1958 was an amalgam of influences of events during the year, influences from the two decades of bewilderingly rapid change, and the three previous

centuries of relative quiescence.

Few countries have experienced so marked an acceleration of the pace of their histories as Indonesia has undergone since the beginning of World War II. Dutch rule was designed to expand exports while keeping the domestic Indonesian society and economy as undisturbed as possible. Then came the war, Japanese occupation, revolution, independence, eight stormy years of internal struggle for power, and revolution again. But the real problem has been lack of decision. The heritage from the Dutch was a badly distorted economy, with exports concentrated on a few commodities highly sensitive to the vagaries of the world market, with no indigenous financial, trading, or transport sector, and with little processing of domestic raw materials within the country. The Dutch also left Indonesia with per capita incomes under \$100 per year,--in the peasant agriculture sector where most Indonesians earn their livelihood it was under \$50 per year--with illiteracy near 90 per cent (probably higher than in 1600) and with no such cadre of trained civil servants and business executives as the British left behind in India. The twenty years of turmoil left Indonesia with impaired plant, equipment, and transport facilities, loss of foreign expertise of every kind, sadly depleted foreign exchange reserves, chronic and accelerating inflation, intensified political conflict, and deepening and spreading disillusionment.

In terms of cold figures the prognosis for the Indonesian economy would seem to be worse than ever. Yet in a curious boomerang fashion the very depths to which 1958 brought Indonesia improves the outlook for the future. For during the past year the Indonesian leadership has learned

four valuable lessons:

1. Political stability and economic development are not two separate problems. No government can "let economic development wait" while it manoeuvres to keep in power. On the contrary, the basic political struggle-- a struggle between outer islands and Center, and between Communists and left-wing Nationalists on the one hand and moderate-rationalists on the other--cannot be resolved without a program of economic development. The essence of such a program must be measures that will feed and clothe the Javanese while building on the growing points and leading sectors of the outer islands; the problem of providing jobs for Javanese outside the overcrowded peasant agriculture sector must be tackled in the second phase of the program.

2. Raising Indonesian incomes requires making the pie grow; redividing the pie--even redividing it between Indonesians and foreigners--is not enough.

3. Communist parties are not easy to utilize for one's own, non-Communist purposes. Both the Nationalist Party and President Sukarno are considerably less enthusiastic now than they were a year ago about collaboration with the Communist Party.

4. Government by "musjarawat desa"--unanimous opinion of the village--doesn't really work at the national level. A central government cannot just postpone awkward decisions on which there is no unanimous agreement. Certain basic decisions must be made now: on the constitution of the proposed new National Planning Board, on the scope and content of a new

Development Plan, on the foreign investment, mining, and petroleum laws, on the allocation of powers between central and regional governments. If for no other reason, the growing impatience and growing power of General Nasution and the Army command would make decisions on these matters urgent.

With the learning of these lessons Indonesia's "absorptive capacity" for foreign aid is higher than ever before. Hitherto the chief obstacle to effective use of foreign aid (and Indonesia has received less assistance per capita than any other country) has been her lack of "development mindedness" and her unwillingness to make decisions on development plans, programs and projects when such decisions were thought to entail political risks. Now that Indonesia leaders have learned that development must be given top priority and that decisions must be made, Indonesia could absorb effectively some \$100 million per ^{year} head in foreign aid: \$50 million under surplus commodity disposal programs to feed and clothe Java, and \$50 million for the well-planned big projects in the outer islands--the Asahan Valley scheme, the Sumatran highway, the Atjeh railway, the South Sumatra fertilizer plant, reclamation projects in Kalimantan (Borneo), and the like. If Indonesia does not start on the road to economic development in 1959 with a non-Communist program, she is likely to be lost forever to the free world. The year 1959 should be "help Indonesia year."

The prospects for foreign private investment in Indonesia are still not too bright, although the departure of so many Dutch enterprises opens the door to other foreigners. However, the atmosphere for foreign private enterprise is likely to improve as Indonesia's own class of rising

entrepreneurs becomes more firmly established and as economic development becomes apparent. Given a few years of liberal assistance with her development program, Indonesia can become an attractive area for foreign private investment as well.

INDONESIAN EXPORT STATISTICS

		Volume		000 kg					
		Value				Millions Rupiahs			
		Total Exports		Total Exports		Rubber		Oil and Oil Products	
				Excl. oil & Oil Products					
<u>Period</u>	<u>Volume</u>	<u>Value</u>	<u>Volume</u>	<u>Value</u>	<u>Volume</u>	<u>Value</u>	<u>Volume</u>	<u>Value</u>	<u>Value</u>
1957	17994204	11.052	2380850	7375	678876	3.983	15613354	3.677	
Jan-Oct '57	11859181	8.610	1918167	6332	580647	3.464	9881014	2.278	
Jan. 1957	1060442	798	172989	584	44928	289	887453	214	
Feb. 1957	619816	569	146167	466	34544	208	473649	103	
March 1957	1071432	861	168109	664	64623	375	903323	197	
April 1957	1001277	813	169697	632	60158	355	831580	181	
May 1957	1239007	794	172291	536	47402	276	1066716	258	
June 1957	1342466	808	173630	525	49579	296	1168836	283	
July 1957	1281177	1.123	256468	866	88607	542	1024709	257	
Aug. 1957	1539868	1.097	296479	832	75739	456	1243389	265	
Sept. 1957	1296551	853	218415	620	60842	352	1078136	233	
Oct. 1957	1407145	894	203922	607	54225	315	1203223	287	
Jan-Oct '58	12500539	6.819	1526612	4182	452072	2.281	10973927	2.637	
Jan. 1958	610587	467	107949	317	31966	168	502638	150	
Feb. 1958	572020	484	82073	375	26627	138	489947	109	
March 1958	2024501	813	145608	389	27865	233	1878893	424	
April 1958	1151321	564	117513	324	38987	191	1033808	240	
May 1958	1438325	693	137949	355	35885	173	1300376	338	
June 1958	1356201	646	152154	370	44181	202	1204047	276	
July 1958	1166014	776	163754	524	65328	295	1002280	252	
Aug. 1958	1462956	783	160347	488	61657	290	1302609	295	
Sept. 1958	1305734	735	264368	522	56727	274	1041366	263	
Oct. 1958	1412880	808	194897	518	62849	317	1217983	290	

INDONESIAN EXPORT STATISTICS CONTINUED

Period	Tin Ore		Copra		Coffee		Tea	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
1957	61.729	617	292.401	433	51.991	333	40.101	340
Jan-Oct '57	31.639	510	226.798	360	48.631	308	33.712	287
Jan. 1957	3.166	50	20.739	35	2.558	16	3.933	38
Feb. 1957	2.431	39	30.066	46	2.091	14	3.373	32
Mar. 1957	3.159	50	23.160	36	3.850	24	4.183	38
April 1957	2.945	50	11.555	19	6.030	37	2.865	24
May 1957	3.167	54	17.088	22	7.333	42	2.925	23
June 1957	2.558	48	9.941	14	7.531	44	2.490	19
July 1957	2.788	35	20.846	32	8.097	51	4.523	36
Aug. 1957	3.538	57	46.244	88	5.865	40	3.114	25
Sept. 1957	4.262	69	9.825	14	3.341	25	2.671	22
Oct. 1957	3.625	58	37.334	54	1.935	15	3.635	30
Jan-Oct '58	21.990	345	49.169	74.2	23.769	166	33.350	244
Jan. 1958	1.417	23	14.652	20	646	6	2.650	18
Feb. 1958	4.521	74	290	0.4	211	2	3.185	24
March 1958	1.564	25	661	1	1.131	10	4.160	30
April 1958	943	15	1.646	2	1.688	14	2.784	20
May 1958	3.056	48	3.080	5	1.384	10	3.524	26
June 1958	2.373	37	1.221	1.8	2.584	16	3.131	24
July 1958	1.264	19	4.348	6	5.400	34	3.668	28
Aug. 1958	1.763	27	7.783	13	4.036	26	3.329	25
Sept. 1958	3.127	47	5.291	8	3.963	29	2.967	21
Oct. 1958	1.957	30	10.197	17	2.726	19	3.952	28

INDONESIAN EXPORT STATISTICS CONTINUED

Period	Sugar		Tobacco		Palm Oil	
	Volume	Value	Volume	Value	Volume	Value
1957	145.936	193	14.751	382	129.223	297
Jan-Oct '57	100.155	144	13.171	352	100.779	235
Jan. 1957	11.107	12	1.094	63	6.902	16
Feb. 1957	-	-	1.398	58	194	0.4
March 1957	102	0.1	2.448	81	725	1.6
April 1957	-	-	2.932	66	8.162	19
May 1957	791	0.9	1.989	37	5.076	12
June 1957	6.883	12	1.124	17	11.631	27
July 1957	19.140	31	663	8	23.566	56
Aug. 1957	19.748	32	499	10	16.179	38
Sept. 1957	11.853	16	542	8	17.907	42
Oct. 1957	30.531	40	482	4	10.437	23
Jan-Oct '58	81.903	78.5	20.447	318	104.726	216
Jan. 1958	4.318	5	422	18	9.230	20
Feb. 1958	11.484	12	2.439	92	4.758	10
March 1958	709	1	2.431	34	7.431	16
April 1958	-	-	1.857	15	10.919	24
May 1958	-	-	2.723	26	9.495	20
June 1958	-	-	2.762	30	8.082	17
July 1958	10.023	9	4.157	62	12.755	26
Aug. 1958	14.528	13.5	2.011	25	13.024	26
Sept. 1958	33.573	31	1.092	13	15.230	30
Oct. 1958	7.271	7	643	3	13.802	27

INDONESIAN EXPORT STATISTICS CONCLUDED

Export Licenses

Index figures for the value of export licenses (1950 monthly average = 100)

	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
January	100	136	98	87	36
February	78	124	127	79	74
March	98	97	108	137	44
April	81	101	136	63	40
May	61	52	102	69	49
June	96	136	114	75	57
July	113	87	92	155	62
August	65	130	137	88	70
September	106	116	77	78	72
October	117	145	119	104	106
November	115	192	126	84	113
December	96	73	109	52	

Monthly Average

1954 : 94
 1955 : 116
 1956 : 112
 1957 : 89
 1958 : -